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SUBJECT: BUS SUBSIDY EXTENDED FOR ANOTHER 18 MONTHS

REF: 07SANSALVADOR2431

¶1. (SBU) SUMMARY: The Government of El Salvador (GOES) reached an agreement with public transportation representatives on a restructured bus subsidy following two months of negotiations. The new agreement extends the subsidy program for 18 months, reduces the monthly payment, and secures a guarantee not to raise fares. While reducing costs, the new agreement falls far short of expectations that the Funes administration would eliminate the unpopular subsidy. Given the political muscle of the bus owners, the transport subsidy will likely continue for the foreseeable future. END SUMMARY.

¶2. (U) On July 26, the GOES reached an agreement on subsidies with public transportation representatives following two months of negotiations, strikes, and public demonstrations. The public transportation union had threatened more protests and disruptions in service if the subsidy was eliminated. The transportation subsidy is the first of the four major budget-busting subsidies (transport, water, electricity, and propane gas) to be addressed by the new government.

¶3. (U) Under the new agreement, bus owners will receive a subsidy of \$500 per bus per month (down from \$800 per bus per month) and minibus owners will receive \$250 per bus per month (instead of \$400 per bus per month) starting August 1. According to the GOES, the new agreement will reduce the subsidy payment to \$4 million per month and save \$35 million per year. The subsidy will continue to be funded through a 10 cent per gallon tax on gasoline and diesel (REFTEL). As part of the agreement, the GOES secured a guarantee from public transportation representatives that fares will remain at current levels over the course of the agreement.

¶4. (SBU) COMMENT: The continuation of the bus subsidy falls far short of expectations for the new administration. Before taking office, the Funes team was outspoken about ending this unpopular subsidy, and economists across the political spectrum have repeatedly questioned its value. The subsidy's continuation demonstrates the political clout of the bus company owners, many of whom serve in the Legislative Assembly and wield considerable influence. If the GOES failed to eliminate the subsidy now, in the early days of the Funes Administration, it is even less likely to do so in 18 months, when the 2012 Assembly elections are that much closer. END COMMENT.
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